Before The FEDERAL COMMUNICATIONS COMMISSION Washington, D.C. 20554

In the Matter of)	
)	
Federal-State Joint Board on)	CC Docket No. 96-45
Universal Service)	

REPLY COMMENTS OF
THE OHIO CONSUMERS' COUNSEL,
THE MARYLAND OFFICE OF PEOPLE'S COUNSEL,
THE MAINE PUBLIC ADVOCATE OFFICE,
THE TEXAS OFFICE OF PUBLIC UTILITY COUNSEL AND
THE PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

Robert S. Tongren, in his capacity as the Ohio Consumers' Counsel, the Maryland Office of People's Counsel, the Maine Public Advocate Office, the Texas Office of Public Utility Counsel and the Pennsylvania Office of Consumer Advocate (collectively referred to as "Consumer Advocates") hereby submit Reply Comments in the above-captioned proceeding. In our Comments to the *Notice of Proposed Rule Making and Order* ("*Notice*"), the Consumer Advocates addressed issues concerning the definitions of "reasonably comparable" and "sufficient" on remand to the Federal Communications Commission ("Commission") from the Tenth Circuit. In these Reply Comments, the Consumer Advocates respond to other parties' comments concerning those issues as well as comments regarding the benchmark and state inducement issues raised in the *Notice*.

¹ FCC 02-41, adopted February 13, 2002.

² Qwest Corporation v. Federal Communications Commission, 258 F.3d 1191 (10th Cir. 2001) ("Qwest").

³ *Notice*, ¶¶ 18-24.

At the outset, the Consumer Advocates are concerned that the United States

Telecom Association ("USTA") intends to circumvent the Wireline Competition

Bureau's denial of USTA's Motion for Extension of Time in this proceeding.⁴ In its

Comments – which are the same length, four pages, as its Motion for Extension of Time

– USTA states that it will file a "more comprehensive submission prior to the closing and forwarding of the record herein to the Joint Board." In essence, USTA appears to be attempting to grant itself the extension of time that the Bureau had denied.

USTA should not be allowed to manipulate the Commission's processes in such a manner. The Commission's rules do not allow the filing of additional comments that have not been "requested or authorized by the Commission." If USTA files its "more comprehensive submission" after the deadline for filing reply comments has passed, the Commission should reject the submission. The only reason USTA gives for the need for filing a "more comprehensive submission" at a later date is "the numerous FCC universal service and broadband proceedings with comments and reply comments due for filing in the next two months...." This is the same reason USTA gave in its Motion for Extension of Time, which was rejected by the Commission. USTA faces the same workload burdens as other parties in this proceeding and should not be granted special treatment.

⁴ See *Order*, CC Docket No. 96-45, DA 02-787, adopted April 8, 2002.

⁵ USTA Comments at 2.

⁶ 47 C.F.R. § 1.415(d).

⁷ USTA Comments at 2.

If, however, the Commission allows USTA to make a post-reply submission, or if USTA's reply comments go beyond merely replying to other parties' comments,⁸ the Consumer Advocates reserve the right to respond to USTA's submission.

I. REASONABLY COMPARABLE

A. Definition of "Rural"

Relatively few commenters addressed the Commission's need define "rural" and "urban" for comparative purposes. The Maine Public Service Commission, Montana Public Service Commission and Vermont Public Service Board ("Rural State Commissions") prefer using Census Bureau definitions. This approach is in line with the Consumer Advocates' proposal. 10

The National Telephone Cooperative Association ("NTCA") suggests defining "rural" as any study area served by a "rural telephone company" as defined in the Act. 11 That multi-part definition includes companies that have study areas that lack an incorporated place of 10,000 or are not within an urbanized area, companies that have fewer than 50,000 access lines, companies in a study area with fewer than 100,000 access lines, and companies that have 15% of their lines in communities of more than 50,000 population. 12 Such an approach is much more cumbersome than the definitions suggested by the Consumer Advocates or the Rural State Commissions. More

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⁸ See 47 C.F.R. § 1.415(c).

⁹ See Rural State Commissions Comments at 4.

¹⁰ See Consumer Advocates Comments at 3.

¹¹ NTCA Comments at 7.

¹² *Id*

importantly, the definition excludes the multitude of rural exchanges served by a "non-rural telephone company."

Verizon suggests defining "rural" as areas not included within Metropolitan Statistical Areas ("MSAs"). The Commission should not rely on MSAs as a source in determining areas that are "rural" (or even "urban"). In fact, the Office of Management and Budget ("OMB") has noted that MSAs are inappropriate for use in funding programs, primarily because MSAs "do not equate to an urban-rural classification...." As the Rural State Commissions pointed out, MSAs are unreliable as guides for determining population density. Indeed, the Washington-Baltimore MSA includes many counties in western Maryland, West Virginia and western Virginia that could hardly be viewed as "urban" or even "suburban." Under Verizon's proposal, these counties would not be defined as "rural."

Verizon would set up a complex system for comparing "rural" and "urban" rates. Verizon suggests defining "urban" as cities or Census Bureau-defined urban areas with populations of at least 50,000 within MSAs. "Suburban" areas – cities of less than 50,000 population within MSAs – would be excluded from the urban/rural comparison. Thus, under Verizon's approach, the Commission would ignore for comparative purposes communities such as College Park, Maryland (population 24,657) and Falls Church, Virginia (10,377) in the Washington-Baltimore MSA, East St. Louis, Illinois (31,542) in the St. Louis MSA, Grosse Pointe, Michigan (5,670) in the Detroit MSA, and Beverly

¹³ See OMB *Notice of Decision*, 65 Fed. Reg. 82228-29 (December 27, 2000).

¹⁴ Rural State Commissions Comments at 4.

¹⁵ See www.census.gov/geo/www/mapGallery/stma99md.pdf.

¹⁶ Verizon at 4.

Hills, California (33,784) in the Los Angeles MSA, among numerous other cities.¹⁷ Thus, the Commission would be required to gather population data for each city within the 261 MSAs in the United States,¹⁸ identify the communities within those MSAs that have less than 50,000 population, and then determine the rates for telephone service for the remaining areas within the MSAs. Verizon's proposal is complex and impractical, and should be rejected by the Commission.

The Consumer Advocates urge the Commission to simplify the definitions of "rural" and "urban" to be used for comparative purposes. Consistent with 47 U.S.C. § 153(37)(a), a "rural" area should be any exchange that includes neither an incorporated place of 10,000 population nor any territory that is considered to be an "urbanized area" under the Census Bureau's definition. "Urban" exchanges would be those where the majority of customers are in Census Bureau-defined "urbanized areas."

B. Standard for "Reasonably Comparable"

Commenters present a variety of opinions regarding how the Commission should determine whether rural rates are "reasonably comparable" to urban rates. At least two commenters agree with the Consumer Advocates that the Commission's determination should include factors other than rates, including a comparison of local calling areas. ¹⁹ The Missouri Public Counsel ("MOPC") notes that "calling scope should be a major consideration in evaluating the standard for 'reasonable comparability' of universal service." NTCA also recommends that in determining reasonable comparability the

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¹⁷ Population figures were obtained from the U.S. Census Bureau website (www.census.gov/main/www/cen2000.html).

¹⁸ See OMB Bulletin No 99-04

¹⁹ See Consumer Advocates Comments at 5-6.

²⁰ MOPC Comments at 3.

Commission consider, in addition to rates, the scope of services in local calling plans and whether toll charges must be incurred to contact essential public services.²¹

As to be expected, the largest disagreement among commenters concerns the range in which rates may be considered to be "reasonably comparable." BellSouth Corporation ("BellSouth") would require state commissions to institute a plan whereby rural rates would be no less than, but no greater than 110% of, urban rates.²² Not only is this an overly narrow range of rates which may be impossible to achieve, it would also cause a rate *increase* in those rural areas that have lower rates than urban areas. The Commission should reject BellSouth's proposal.

Beacon Telecommunications Advisors ("Beacon"), on the other hand, suggest that any rural rates within the range of 115% to 150% of urban rates should be considered to "reasonably comparable" to the urban rates.²³ The Consumer Advocates' Comments addressed the need for narrower rate ranges,²⁴ and will incorporate that discussion by reference in these Reply Comments.

Verizon proposes that rural rates that are within two standard deviations of the mean of urban rates should be deemed "reasonably comparable." Verizon's proposal, like Beacon's, establishes far too broad a range of comparability.

Verizon, like some other commenters, has reviewed the recent General Accounting Office ("GAO") report "Telecommunications – Federal and State Universal Service Programs and Challenges to Funding," GAO 02-187 (rel. Feb. 4, 2002) ("GAO

²² BellSouth Comments at 4.

²¹ NTCA Comments at 6.

²³ Beacon Comments at 2.

²⁴ Consumer Advocates Comments at 4-5.

Report").²⁵ Verizon states that the GAO Report shows that, on average, rates between central cities, suburbs, and areas outside MSAs are virtually identical. From the sample exchanges set out in Appendix IV of the GAO Report, Verizon has calculated that the mean residential and single-line business rates for urban, suburban and "non-MSA" areas vary by less than twenty-five cents and less than \$3.00 respectively, *with mean rural rates being lower than mean urban rates*.²⁶ GAO attributes that difference to value-of-service pricing.²⁷

Verizon's calculations are misleading because they do not include consideration of the scope of local calling, as discussed in the Consumer Advocates' initial comments.²⁸ If the cost of "local" calling were factored in, significant differences between the cost of urban and rural service in many states would likely be revealed.

Yet Section 254 of the Act requires more than that the national mean of rural rates be reasonably comparable to the national mean of urban rates. It also provides for reasonable comparability of urban and rural areas within each of the states. The GAO Report does not address this question.

Verizon has also calculated that the standard deviation of the samples of urban rates and the standard deviation of rural rates are very similar.²⁹ This also ignores

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²⁵ See AT&T at 2-3. AT&T's description of the GAO's finding as "that there was no material difference between urban and rural rates across the country" is true only with regard to *average* rates. See GAO Report at 15-17. As addressed below, this says nothing about the comparison between the rural rates of a particular LEC in a specific state to the urban rates in that same state.

²⁶ See the table contained in Verizon Comments at 4. The GAO Report does not contain the calculations that Verizon presents. The Consumer Advocates have not attempted to replicate Verizon's calculations.

²⁷ GAO Report at 14-15.

²⁸ The GAO Report did not include comparability of local calling areas in its rate comparisons. See *id*. at 49.

²⁹ Verizon Comments at 5.

differences in rates within states. Appendix IV of the GAO Report gives examples: In Texas, one rural exchange has rates 2.5 times that of an urban exchange; in Indiana one rural exchange has rates 2.1 times that of an urban exchange. The sampling technique also misses specific examples: In Ohio, for instance, five small LECs (under 15,000 access lines) have rates that are more than 150% of Ohio urban rates, as does one LEC with more than 30,000 access lines.³⁰

There is another flaw in use of the GAO Report for this proceeding that these examples expose. The GAO Report contains no differentiation between "places" that are served by the non-rural ILECs that are under consideration here and places that are served by rural carriers, which are not the subject of this proceeding. The results may well be similar, but until the latter calculation is performed, the Commission cannot assess the support needs of the rural exchanges that happen to be served by non-rural ILECs.

Despite these criticisms, Verizon's initial analysis is, in fact, good news: For the most part, many rural exchanges have basic rates that are reasonably comparable to urban rates.³¹ To the extent that these exchanges of non-rural carriers currently have rates that are reasonably comparable to urban rates, those carriers do not need universal service support.³²

³⁰ Indeed, the highest local service rate paid by a Sprint local customer in Ohio, which reflects wide local calling and distance from the central office, is \$22.85 (\$17.60 flat rate plus a \$5.25 zone charge). See Sprint/United Ohio Tariff, PUCO No. 6, at Sec. B (available at http://www.puc.state.oh.us/docket/tariffs/Tcom/sprint/Local/SecB.pdf).

³¹ Again, this is without consideration of local calling areas.

³² Indeed, this is consistent with the fact that high cost universal service support for non-rural ILECs (projected to be \$93.144 million for 2nd Quarter 2002) is only 6.72% of the total federal universal service fund (estimated at \$1.385254 billion for 2nd Quarter 2002). See Universal Service Administrative Company, Federal Universal Service Support Mechanisms Fund Size Projections for the Second Quarter 2002, January 31, 2002, at 13 and Appendix M2.

Yet the fact that most rural exchanges currently have rates that are reasonably comparable to urban rates should not obscure the fact that there may be many other rural exchanges that do not have reasonably comparable rates. Verizon's definition of "reasonably comparable" would also obscure that fact.

Verizon proposes that

[s]ince the vast majority of rates fall within two standard deviations of the mean, the Commission should adopt a threshold for "reasonably comparable" as rates in urban and rural areas that are within two standard deviations, or approximately \$11.00, of each other or of the national mean ³³

Some numerical examples will show the unreasonableness of Verizon's proposal.

The mean urban residential rate is, according to Verizon, \$14.79 per month.³⁴ A rural rate within \$11.00 of that urban rate would be \$25.79 a month. This rural rate is 174% of the urban rate. As discussed above and in the Joint Advocates' initial comments, this is well in excess of a common-sense meaning of reasonably comparable.³⁵

Indeed, the "vast majority" of rates do fall within two standard deviations of the mean; **by definition**, that range includes 95.5% of the items in a sample with normal distribution.³⁶ Yet urban rates two standard deviations (\$11.00) below the mean would be less than \$4.00. There are no rates below \$4.00 in Appendix 4 of the GAO Report. This calls the GAO report into serious question as a data source.

³⁴ See the table contained in *id*. at 4.

³³ Verizon Comments at 6.

³⁵ Verizon arrives at this conclusion without explanation other than to note that national telephone subscription levels are at 95.1%. *Id.* at 6. The fact that some rural customers are able to subscribe to local exchange service while paying rates that are substantially in excess of urban rates cannot obscure the fact that the Act directed that the universal service support mechanisms – federal and state together – produce rates that are, in fact, *reasonably* comparable.

³⁶ See http://mathworld.wolfram.com/StandardDeviation.html.

In the other direction, two standard deviations *above* the mean would be \$26.

There are only two exchanges in Appendix 4 with rates above \$26 – both of which are in Wyoming.³⁷ Again, this suggests that the data on local rates does not fit a normal distribution.³⁸

Clearly, the key problem with Verizon's analysis is the selection of "within two standard deviations" as a surrogate for "reasonably comparable." The use of "one standard deviation," on the other hand, produces much more reasonable results. One standard deviation, about \$5.35, ³⁹ more than the median yields about \$19.30. This is just under 1.38 times the mean urban rate, much more intuitively "reasonably comparable" than \$26.00.

As previously noted, plus or minus two standard deviations includes 95.5% of the sampled rates, that is, a little more than 47.7% of the rates are above the mean and 47.7% are below the mean. This leaves, on the high side, only 2.3% of the rates that are not "reasonably comparable." On the other hand, plus or minus one standard deviation includes 65% of the sampled rates, falling 32.5% above and 32.5% below the mean. This leaves, on the high side, 16.5% of rural rates that are not "reasonably comparable" to urban rates. Verizon's "two standard deviation" standard stretches the concept of reasonable comparability to the extreme.

³⁷ All eleven of the places in Michigan are listed as having a \$43.95 rate, which is the Michigan standard unlimited usage charge. GAO Report at 59. The GAO's use of this figure is inconsistent with the use of a 100 calls per month standard where residential customer have no flat rate available (see *id.* at 31); as the GAO acknowledges, in Michigan a 400-call service is available for \$12.01. *Id.* at 59.

³⁸ Appendix 4 of the GAO Report contains reference to rates in more than 380 places in the United States.

³⁹ See Verizon Comments at 5.

Verizon's analysis is fraught with problems. With the analytical and conceptual kinks worked out, though, Verizon's analysis appears to support the Consumer Advocates position. 40

It is clear that the Commission may adopt a standard whereby rural rates that are no more than 135% of urban rates are considered reasonably comparable to urban rates. (Factors such as the local calling area discussed by the Consumer Advocates must be included.) The Consumer Advocates again recommend that the Commission adopt such a standard.

II. **SUFFICIENT**

In its comments on the sufficiency issue, Verizon urges the Commission to refrain from restricting states' ability to raise rates while keeping them "affordable." In making this recommendation, Verizon states, "current rates for basic residential service are artificially low in many jurisdictions as a result of state ratemaking policies.",42

Verizon does not explain what it means by residential rates being "artificially low." The Commission should not assume that whatever Verizon defines as "artificially low" rates equates to "below cost rates." In most states, residential rates that are low are nonetheless priced above cost. 43 In addition, some rates have been set not through traditional ratemaking processes, but in exchange for agreement to the ILEC's plan for merger or alternative regulation. Finally, there is no credible evidence that in any state,

⁴² Id.

⁴⁰ See Consumer Advocates Comments at 4-5.

⁴¹ Verizon Comments at 7.

⁴³ That is, unless the entire cost of common facilities like the loop is in included in the cost of basic service.

any ILEC's residential service as a whole is provided at below the cost of the typical residential service package, including vertical services. The Commission's universal service mechanism should not be used to raise residential rates.

III. BENCHMARKS

SBC Communications ("SBC") does not address how the Commission should determine whether rural rates are reasonably comparable to urban rates. Instead, SBC advances the notion that the Commission should establish an affordability benchmark based on an area's average household income, provide universal service funding to those areas where the forward-looking cost of providing service exceeds the affordability benchmark and establish a transition plan that allows residential local prices to rise to levels that are "self-supporting and affordable."

SBC's proposal is seriously flawed for a number of reasons. First, the proposal is premised on the assertion that the Commission must do more than defend its 135% benchmark in order to comply with the Tenth Circuit's directive and the Act. That is simply not the case. As the court stated,

As noted above, the FCC has substituted a comparison of national and statewide averages for the statutory comparison of urban and rural rates. If, however, the FCC's 135% benchmark actually produced urban and rural rates that were reasonably comparable, however those terms are defined, we likely would uphold the mechanism 46

⁴⁴ See SBC Comments at 12-13.

⁴⁵ *Id.* at 2.

⁴⁶ Owest, 258 F.3d at 1202 (footnote omitted).

The court faulted the Commission only for providing insufficient justification to support the benchmark.⁴⁷ The Court directed the Commission to "provide adequate support and reasoning for whatever level of support it ultimately selects on remand."⁴⁸ The affordability of local telephone service was not an issue in *Qwest*, and therefore should not be addressed in this remand proceeding. The Commission could readopt the 135% benchmark for cost of service, and the Consumer Advocates have urged the Commission to do so.⁴⁹

Second, SBC's proposal involves the raising of residential rates to "to affordable levels." ⁵⁰ In other words, the proposal would narrow the gap between business and residential rates, with no examination of the relationship between the rates and their costs. Thus, SBC is trying to achieve in the name of federal universal service reform that which the company has been unable to achieve in many states – rate deaveraging. The Commission should not become involved in the setting of local rates.

Third, SBC's proposal is based on the assumption that rates in high-cost rural areas are not "self-supporting." SBC does not define that concept in its comments, as Verizon did not define "artificially low." One definition of "self-supporting" could be "at or above the stand-alone cost." No regulatory regime in any state or at the federal level has ever required that rates for any class of customer be above the stand-alone cost of service.

⁴⁷ *Id*.

⁴⁸ *Id.* at 1203.

⁴⁹ Consumer Advocates Comments at 5.

⁵⁰ SBC Comments at 24. This begs the question of whether lower rates are not "affordable."

Perhaps SBC is referring to forward-looking incremental cost. In Ohio, the current rate for flat rate residential service throughout the SBC/Ameritech Ohio territory, urban and rural, is \$14.25 per month. This is very close to the mean for residential service nationwide as reported in Verizon's Comments (at 4). This is a rate that Ameritech Ohio agreed to, in exchange for alternative regulation. Further, when cost of service is calculated based on the cost of the package of unbundled network elements required to provide it, the rates for SBC/Ameritech's rural areas are actually above cost in all but a handful of exchanges.

Fourth, the Act does not envision basing universal service support on the income of the consumers in a particular area. Indeed, in describing the universal service principle of access in rural and high cost areas, the Act states, "Consumers in all regions of the Nation, including low-income consumers and *those in rural, insular and high cost areas*, should have access to telecommunications and information services...." The Act does not make income a qualifier for telecommunications access in rural, insular and high cost areas. Thus, access to telecommunications services in those areas must be available to all consumers, regardless of income, at rates that are reasonably comparable to those charged in urban areas.⁵³

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⁵¹ The Public Utilities Commission of Ohio ("PUCO") recently approved another generic alternative regulation plan that caps basic local service rates at current levels. *In the Matter of the Application of Ameritech Ohio (formerly known as The Ohio Bell Telephone Company) for Approval of an Alternative Form of Regulation,* PUCO Case No. 93-487-TP-ALT, Opinion and Order (April 27, 2000) (available at www.puco.ohio.gov/ohioutil/Telecommunications/AltReg/93-487Order-Stip.PDF). Ameritech Ohio has strongly supported that plan. See, e.g., PUCO Case No. 93-487-TP-ALT, Ameritech Ohio's Memorandum Contra (June 5, 2000) at 7. The Commission should not ignore this sort of corporate schizophrenia in evaluating SBC's proposals.

⁵² 47 U.S.C. § 254(b)(3) (emphasis added).

⁵³ Hence even if rural rates two-and-a-half times urban rates were "affordable," the Act would allow support for those rates because they are not reasonably comparable.

SBC's proposal is not consistent with the Act, is based on flawed assumptions and would require the Commission to tread upon the rate-setting jurisdiction of state utility commissions. The Commission should reject SBC's proposal.

IV. STATE INDUCEMENTS

In addressing the issue of inducing states to provide sufficient universal service support, several commenters have lost sight of the target. For example, BellSouth, among other things, would require states to adjust rural rates to within a comparable range to urban rates and would shut off matching lifeline funding to states that do not realign rural and urban rates as well as intrastate access rates with interstate rates.⁵⁴

BellSouth apparently believes that universal service mechanisms should be used as punitive measures against residential customers. As discussed earlier, BellSouth's proposal to adjust rural rates is a two-way street; the company would require the raising of rural rates that are lower than urban rates. In addition, because matching federal lifeline funds flow through to low-income residential customers, the company would have the Commission eliminate funds to residential consumers who can ill-afford to lose them. The Commission should reject BellSouth's proposal.

Another proposal that the Commission should reject comes from the National Rural Telecom Association and the Organization for the Promotion and Advancement of Small Telecommunications Companies ("NRTA/OPASTCO"). NRTA/OPASTCO recommends that the Commission induce states to replace implicit support with explicit support, basing its recommendation on Section 254(f) of the Act.⁵⁵

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⁵⁴ BellSouth Comments at 4-5.

⁵⁵ NRTA/OPASTCO Comments at 13.

However, the Act does not require states to eliminate implicit universal service support. To the contrary, Section 254(f) gives states considerable latitude in how they fund their universal service mechanisms:

Every telecommunications carrier that provides intrastate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, *in a manner determined by the State*, to the preservation and advancement of universal service in that State.

Emphasis added. The requirement that universal service support be explicit appears in Section 254(e), which directly refers only to federal universal service support.⁵⁶ Thus, it would be improper for the Commission to follow NRTA/OPASTCO's recommendation.

The Consumer Advocates are in qualified agreement with the Public Utility

Commission of Texas ("PUCT"). PUCT suggests that the Commission exempt "states with viable universal service support mechanisms" from any inducements that the

Commission may develop.⁵⁷ Merely having a mechanism in place should not be enough, however. The Consumer Advocates recommend that a state's universal service support mechanism must be "viable," as well as "specific, predictable and sufficient," before it is exempt from any Commission inducement.

V. CONCLUSION.

The Tenth Circuit in *Qwest* did not require the Commission to develop elaborate methods of providing high-cost universal service support to non-rural carriers. The court also did not require the Commission to raise rates for residential local telephone service. Instead, the court only directed the Commission to provide logical explanations for

⁵⁶ Section 254(f) also allows states to adopt additional universal service support mechanism, but requires only that the mechanisms be "specific, predictable and sufficient." There is no mention of explicitness.

⁵⁷ PUCT Comments at 3.

whatever actions it takes. The Consumer Advocates have provided the Commission with recommendations that meet both the directives of both the Tenth Circuit and the Act. We urge the Commission to adopt our recommendations.

Respectfully submitted,

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April 25, 2002

CERTIFICATE OF SERVICE

I hereby certify that a copy of the Reply Comments of The Ohio Consumers' Counsel, The Maryland Office of People's Counsel, The Maine Public Advocate Office, The Texas Office of Public Utility Counsel and The Pennsylvania Office of Consumer Advocate has been served upon the following parties by first class mail this 25th day of April 2002.

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